City of Garland

Mayor James Ratliff

Costs of Customer Choice:

Open transmission access (wholesale wheeling) should be weighed and examined before rushing headlong into retail open access. If open retail customer access is given, who is "obligated to serve" the customers that remain within a service territory if some customers leave and those customers that remain do not provide a reasonable rate of return.? The fixed costs that remain for utilities must be compensated within the remaining shrinking customer base.

Concerns With Proposed Legislation:

In the late 1970s, the federal government enacted legislation that prohibited municipal and investor-owned power producers from building gas-fired plants. By the power of elimination, municipally-owned-utilities and investor-owned utilities were forced to build only coal or nuclear powered plants. The cities of Garland, Denton, Greenville and Bryan entered into a long-term contract that obligated the cities to a coal-fired unit until the year 2017. The cost of this unit over and above comparable costs for newly constructed gas-fired units are stranded costs ($835,000,000) that must be addressed. These previous actions by the federal government is the basis for the stranded costs incurred by municipally-owned-utilities.

Unlike investor-owned-utilities who benefit from stock offerings for funds, municipally-owned-utilities must fund all production units from bond sales. Therefore, municipally-owned utilities do not have the lucrative “write-off” options that their counterparts, investor-owned utilities, have available. Federal legislation must deal with how to satisfactorily compensate municipally-owned-utilities for their stranded costs. If this vital issue is not dealt with, some municipally-owned-utilities face severe financial crises not excluding the very real possibility of bankruptcy.

Nationally, electric rates of municipally-owned-utilities average 15% less than those of investor-owned utilities. Therefore, local control remains important to cities that own electric utilities.

<u>What Should Be Done?</u>

A. Allow time for municipals to gain their competitive footing. Give wholesale competition a chance. A fully competitive market for electricity, including retail competition, may be a desirable long-term goal. However, both municipally-owned utilities and the cities that own them need time to prepare for competition. Utilities with stranded costs must develop plans to amortize those costs to a level where generation costs are at market levels.

Strong investor-owned utilities might be able to bear short-term economic losses due to rapid onset of full competition. But municipalities who have always flowed profits back to their rate payers certainly could not. Under a rapid, “full competition” scenario, cities could experience financial chaos stemming from the failure of their municipally-owned utilities. This action is vital to the survival and competitiveness of the municipals.

B. Spread the recovery of stranded costs to a wider customer base. If a utility has participated in capital intensive coal, lignite, or nuclear generation plants built in the mid 70s to mid 80s, and if those assets represent a significant share of their generation capabilities, those utilities will most probably have stranded costs. If those utilities have not already taken massive write-offs to spread costs to shareholders, those stranded costs will be high.

If stranded costs are not recovered, then the taxpayers of the municipal utilities who back the bonds that paid for the stranded assets are at financial risk. The restructuring to a competitive market should not create winners and losers before competition even begins, otherwise it drives competitors out of business and destroys the competitive environment. A number of cities, such as ours, would end up being the losers.